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RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEHNSC/NSC WASHDC  
RUCPDOC/DEPT OF COMMERCE WASHDC

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SIPDIS

SENSITIVE  
SIPDIS

DEPT FOR NEC DIRECTOR HUBBARD  
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD  
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR  
DEPT PASS TO USTR DHARTWICK/CLILIENFELD/AADLER  
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL  
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN  
STATE FOR P, SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE

E.O. 12958: N/A

TAGS: [EFIN](#) [EINV](#) [EPET](#) [ETRD](#) [SENV](#) [PREL](#) [PARM](#) [TSPL](#) [KNNP](#) [TRGY](#) [IN](#)

SUBJECT: AMBASSADOR DISCUSSES CEO FORUM ISSUES WITH PLANNING  
COMMISSION DEPUTY CHAIRMAN AHLUWALIA

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¶1. (SBU) Summary: The Ambassador met September 14 with Planning Commission Deputy Chairman Montek Ahluwalia to discuss the upcoming CEO Forum, mid-October visit to India by Energy Deputy Secretary Sell for the APP and Energy Dialogue, and the end of October visit by Treasury Secretary Paulson and NEC Director Hubbard. Ambassador also urged GOI resolution of the outstanding legacy issues of McDermott and Dow Chemical. End Summary.

¶2. (SBU) The Ambassador noted that the CEO Forum was unique in that it was one of the few private sector forums that attracted great interest and attendance from senior government officials. It was therefore important that the September 24 discussion focus on critical issues including infrastructure financing and the impact of inadequate IPR protection on foreign investment in India that has lead to the recent decision by the Swiss pharmaceutical company, Novartis, to pull out of India after its latest patent application was denied. Ahluwalia agreed and said that he hoped the U.S.-India civil nuclear agreement would not be on the agenda since the ball was in India's court to move forward in a process well known to everyone. Ambassador noted that, at some point, prospects for U.S. private sector investment in India's civil nuclear industry would be an appropriate discussion topic at the CEO Forum, but not until the Agreement had been operationalized. Ahluwalia said that he would discuss with Foreign Secretary Menon keeping the civil nuclear agreement off the agenda, and Ambassador said that he would take it up with Under Secretary Burns.

¶3. (SBU) The Ambassador said that it might be useful to repeat the formula used in last year's successful CEO Forum by using the lunch to follow up on important economic issues previously raised in the morning meeting, and avoid topics like civil nuclear and the Doha Round that will accomplish little in the short time available. Ahluwalia agreed and said that CII and the Ministry of External Affairs had been discussing with State and the NSC the idea of moving from one large rectangular table to several round tables that would group CEOs and government officials according to their interest in particular issues/topics. Ahluwalia added that the GOI intended to present a 14 point non-paper on progress made and remaining/new issues that could be useful for discussion and follow up after the meeting. Ahluwalia said that Hubbard in a recent phone

conversation said that the U.S. also intended to raise agricultural/phyto-sanitary concerns.

¶4. (SBU) The Ambassador said that the October 29-30 visit of Treasury Secretary Paulson to India presented a great opportunity to focus on creating a climate of finance for infrastructure. He added that Paulson and his team will bring great knowledge and experience on financial market supervision, regulatory issues, securitization, debt, and other key areas. Ahluwalia said that he will be joining the Ambassador in the October 29 Infrastructure Conference in Mumbai that Paulson and Indian Finance Minister Chidambaram will open. Ahluwalia noted that it would be helpful if there was some movement on U.S. approval of ICICI's and Bank of India's long-pending U.S. bank branch applications. He added that there was a lot of irritation in MOF over this issue, especially since Secretary Paulson had told Chidambaram a year ago that there would be action. Despite the lack of progress, Ahluwalia noted that MOF had recently approved three new branches in India for Citibank. Ambassador responded that the delay was not due to protectionism on the U.S. part, but because of regulatory issues that required India's establishment of an anti-money laundering/terrorist financing regime (AML/CTF) that meets international standards. The Ambassador noted that India had joined the Financial Action Task Force (FATF) as an observer with the goal of full membership, which was a welcome step. Ahluwalia asked for a one page note on outstanding issues related to AML/CTF that he could discuss with Chidambaram before the CEO Forum.

¶5. (SBU) The Ambassador said that Deputy Secretary of Energy Clay Sells will visit India in mid-October for the Asia Partnership Program (APP) summit and the U.S.-India Energy Dialogue. He added that Secretary Rice is also considering coming out for the APP.

¶6. (SBU) Aluwalia asked what the key deadlines are for

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operationalizing the Civil Nuclear Agreement. The Ambassador said that there can be no Congressional vote until India has reached agreement first with the IAEA, then the NSG. Given the 90 day Congressional review requirement before a vote is possible, India would have to conclude the first two steps by December in order to get a vote in Congress by the end of February. After that, getting it on the Congressional calendar next year would be much more difficult. Ambassador added that the U.S. has been very quiet publicly on the Agreement since July in order to avoid "stirring things up" for the GOI as it deals with political debate here. Ahluwalia said that the issue in India is who will blink first, Congress or the Left. For the Left, it is clear the issue is not the 123 Agreement, but the deepening U.S.-India relationship which they vehemently oppose. Ahluwalia said that there are two possibilities if Congress calls the Left's bluff: it could continue as a minority government until calling for elections, or the Left could join with the BJP in bringing down the government, leading to elections. In either case, Ahluwalia said the Government is presently in a good political position to go into elections, but it would be better to go to the polls on issues other than the 123 Agreement.

¶7. (SBU) Returning to the CEO Forum, the Ambassador said that McDermott International CEO Nesbitt will be attending and there are reports that the GOI may announce at the Forum that it is taking steps to finally resolve this long outstanding legacy issue. Ambassador cautioned that any action that fell short of expeditiously settling in full the Supreme Court Judgment in favor of McDermott, such as a partial payment through the bankruptcy proceedings, will go down badly and create major ill feelings in the U.S. business community. The Ambassador also cited the GOI's continued third party claims against Dow Chemical in the ongoing Bhopal land reclamation lawsuit as a further impediment by Dow and others to invest in India, and he asked that the GOI drop its claims against Dow. Ahluwalia took the Ambassador's points on McDermott, noting the importance of finally putting the issue to rest. On Dow, he said that the GOI does not understand Dow's concern about future civil or criminal liability since the GOI third-party claims do not suggest a GOI presumption that Dow is responsible for the cleanup. The GOI's problem is that the NGOs are very active and vocal in this

case, and it is very difficult for the Government to now drop its claims against Dow. The GOI was hoping for a quick resolution of the case which would have settled the issue, but Dow prevented this by asking for a stay in the proceedings. Ahluwalia noted that the issue of whether a company like Dow can be held liable for the actions of another company solely on the basis of acquiring that company after the culpable activity occurred is an important and novel legal issue in India that needs to be resolved. Ahluwalia recommended that the Ambassador discuss the issue with Finance Minister Chidambaram - a noted jurist.

**¶8.** (SBU) Ambassador again stressed the importance of the financial sector in upcoming U.S.-India discussions, noting that a central economic issue for India is the long-term status of its financial markets. He added that India's financial markets today have the makings for a regional financial center, given India's huge hinterland and large and increasing savings rates that mirror the conditions in the U.S. banking sector a generation ago. The Ambassador said that virtually all large U.S. banks were once domestic-centered, before they went global. Ahluwalia agreed, noting that the GOI (with MOF and Prime Minister approval) had just commissioned a High Level Committee on Financial Sector Reforms, composed mostly of private sector individuals, to make recommendations by next March on next steps in financial sector reform. He added that, until India ends the dominance of the State in the banking sector, there will never be a level playing field for private or foreign banks that is necessary if India is to establish itself as a regional financial center.

MULFORD